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Federal Regulatory Policy Issues

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December 12, 1996

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Federal Communications Commission
Office of Secretary

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: Universal Service; CC Docket 96-45

Dear Mr. Caton:

On December 11, Mr. F. Gumper and I, representing NYNEX, met with Mr. J. Casserly, Senior Legal Advisor to Commissioner Ness. Among the topics discussed by the NYNEX representatives were the recent Universal Service Joint Board recommendations. The attached charts were used during the discussion.

Sincerely,

Susanne Guyer (mlt)

cc: J. Casserly

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NYNEX Recycles

Joint Board Recommendations

■ Proxy Model

- The ultimate model adopted by the FCC should include geographically defined areas that are consistent with the geographic areas used for unbundled elements, access, and retail rates.
- Inconsistent geographic areas will result in arbitrage.

Necessary Linkage between Universal Service and Network Elements

Universal Service = Network Elements plus Retail Costs

a) Network Elements = Loop
 Port
 Local Switching (500-700 MOUs)
 Transport and Terminating Access
 Access to E911, Operator Services
 and Directory Assistance

b) Retail Costs = State Approved \$ per line to
 Cover Customer Care Costs for
 Basic Service

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Example of inconsistent deaveraging of Universal Service support and unbundled elements.

UNBUNDLED ELEMENTS		
Zones	Areas	Average BCM2 Cost/Month*
1	Rural	\$38.42
2	Rural/Suburban	\$25.38
3	Suburban	\$22.04
4	Urban	\$20.12
*Assume retail costs of \$4.00/month		

UNIVERSAL SERVICE COSTS		
<i>Range of costs for individuals wire centers within Zone 1:</i>		
Wire Centers	Cost/ Month	Line Served
MILTON	\$23.98	12,415
ROME	\$26.78	27,951
GREENFIELD CENTER	\$48.91	4,914
BRAINARDSVILLE	\$124.70	1,010
ST. REGIS FALLS	\$122.92	1,251
PUTNAM	\$149.54	482

Gaming Opportunity: target high cost wire centers within a zone.

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There is Important Linkage Between Unbundled Network Elements and USF Support:

- Geographical deaveraging should be the same.
- For Universal Service Costing, Joint Board should specify reasonable number of zones in state (2-4)
 - Urban
 - Suburban
 - Rural
- Wire Center, Census Block Group -- administrative nightmare

Joint Board Recommendations

CCL Proposal

- NYNEX agrees with proposal to take CCL and apply on a flat-rated, presubscribed line basis to IXC's if:
 - End user no-PIC's an IXC, end user pays per line charge.
 - IXC's can pass on to end user as a flat rated charge, if desired.

Joint Board Recommendations

Concerns:

■ Cost Recovery

- Not addressed in the Joint Board's recommendation
- Customer "surcharge" most reasonable mechanism

■ Method of calculating carrier payments

- NYNEX proposal use of retail revenues less basic residence local service revenues
- Joint Board proposal results in disproportionate burden on LECs

Funding the USF

Method	Industry (%)			NYNEX
	LEC	IXC	Other	
Retail Revenue Less Residence Local	38	50	12	4.9
Retail Revenues	47	43	10	6.1
Gross Revenue Less Carrier Payments	63	25	12	7.8

If Total Fund = \$8 Billion
NYNEX Share \$400 - \$600 Million

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